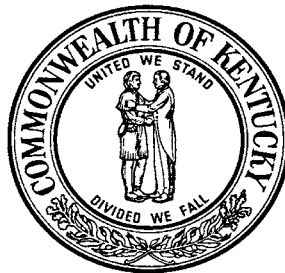


**REPORT OF THE AUDIT OF THE
FORMER LESLIE COUNTY
SHERIFF'S SETTLEMENT - 1999 TAXES**

May 30, 2001



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER LESLIE COUNTY
SHERIFF'S SETTLEMENT - 1999 TAXES**

May 30, 2001

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 1999 Taxes for former Leslie County Sheriff as of May 30, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$2,650,935 for the districts for 1999 taxes, retaining commissions of \$110,467 to operate the Sheriff's office. The former Sheriff distributed taxes of \$2,513,831 to the districts for 1999 Taxes. Taxes of \$37 are due to the districts from the former Sheriff and refunds of \$872 are due to the former Sheriff from the taxing districts.

Debt Obligations:

None

Report Comments:

- The Sheriff's Office Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Former Sheriff Should Have Obtained A County Revenue Bond
- The Former Sheriff Should Have Prepared An Accurate Settlement
- The Former Sheriff Should Collect Prior Year Uncollected Amounts Due Tax Account
- The Former Sheriff Should Collect Refunds Due To The Tax Account And Distribute Additional Amounts Due To Others
- The Former Sheriff Should Collect Refunds Due To The Unmined Coal Tax Account And Distribute Additional Amounts Due To Others
- Lacks Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were not adequately insured or collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Kenneth R. Witt, Leslie County Judge/Executive

Honorable James F. Davidson, Former Leslie County Sheriff

Members of the Leslie County Fiscal Court

Independent Auditor's Report

We have audited the former Leslie County Sheriff's Settlement - 1999 Taxes as of May 30, 2001. This tax settlement is the responsibility of the former Leslie County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Leslie County Sheriff's taxes charged, credited, and paid as of May 30, 2001, in conformity with the modified cash basis of accounting.



To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Kenneth R. Witt, Leslie County Judge/Executive

Honorable James F. Davidson, Former Leslie County Sheriff

Members of the Leslie County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated March 26, 2003, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff's Office Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Former Sheriff Should Have Obtained A County Revenue Bond
- The Former Sheriff Should Have Prepared An Accurate Settlement
- The Former Sheriff Should Collect Prior Year Uncollected Amounts Due Tax Account
- The Former Sheriff Should Collect Refunds Due To The Tax Account And Distribute Additional Amounts Due To Others
- The Former Sheriff Should Collect Refunds Due To The Unmined Coal Tax Account And Distribute Additional Amounts Due To Others
- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -
March 26, 2003

LESLIE COUNTY
JAMES F. DAVIDSON, FORMER COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 1999 TAXES

May 30, 2001

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 265,665	\$ 282,354	\$ 589,891	\$ 211,389
Tangible Personal Property	79,857	97,603	203,586	244,798
Intangible Personal Property				4,940
Fire Protection	5,465			
Taxes Increased Through				
Exonerations	270	279	599	215
Franchise Corporation	38,974	45,249	94,667	
Additional Billings	930	979	2,071	753
Unmined Coal - 1999 Taxes	110,235	113,790	244,768	87,714
Oil and Gas Property Taxes	42,778	44,158	94,985	34,038
Penalties	4,566	4,908	10,227	4,640
Adjusted to Sheriff's Receipt	596	889	1,855	120
	<u>\$ 549,336</u>	<u>\$ 590,209</u>	<u>\$ 1,242,649</u>	<u>\$ 588,607</u>
<u>Credits</u>				
Exonerations	\$ 4,191	\$ 4,315	\$ 9,282	\$ 3,326
Discounts	6,961	7,457	15,723	8,562
Delinquents:				
Real Estate	38,933	40,384	85,597	30,674
Tangible Personal Property	6,814	8,328	16,973	18,572
Intangible Personal Property				147
Delinquent Additional Taxes	189	194	425	162
Unmined Coal - 1999 Taxes	2,504	2,585	5,560	1,993
Uncollected Franchise	3	4	8	
	<u>\$ 59,595</u>	<u>\$ 63,267</u>	<u>\$ 133,568</u>	<u>\$ 63,436</u>
Total Credits				
	<u>\$ 59,595</u>	<u>\$ 63,267</u>	<u>\$ 133,568</u>	<u>\$ 63,436</u>
Taxes Collected	\$ 489,741	\$ 526,942	\$ 1,109,081	\$ 525,171
Less: Commissions *	21,102	22,395	44,363	22,607
	<u>\$ 468,639</u>	<u>\$ 504,547</u>	<u>\$ 1,064,718</u>	<u>\$ 502,564</u>
Taxes Due	\$ 468,639	\$ 504,547	\$ 1,064,718	\$ 502,564
Taxes Paid	459,545	493,070	1,059,630	501,586
Refunds (Current and Prior Year)	1,394	1,425	3,070	1,116

LESLIE COUNTY
 JAMES F. DAVIDSON, FORMER COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 1999 TAXES
 May 30, 2001
 (Continued)

	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
1997 Tax Overpayment	824	64	123	
1998 Tax Overpayment	<u>7,330</u>	<u>9,951</u>	<u>2,175</u>	
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ (454)</u>	<u>\$ 37</u>	<u>\$ (280)</u>	<u>\$ (138)</u>
* Commissions:				
10% on \$ 10,000				
4.25% on \$ 1,531,854				
4% on \$ 1,109,081				
** Special Taxing Districts:				
Library District	\$	133		
Health District		(38)		
Extension District		(60)		
Soil District		<u>2</u>		
Due Districts or (Refunds Due Sheriff)	<u>\$</u>	<u>37</u>		

The accompanying notes are an integral part of the financial statement.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS

May 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LESLIE COUNTY
 NOTES TO FINANCIAL STATEMENT
 May 30, 2001
 (Continued)

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff's office and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The former Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of September 30, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$152,748 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of May 30, 2001.

	<u>Bank Balance</u>
FDIC Insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	800,000
Uncollateralized and uninsured	<u>152,748</u>
Total	<u><u>\$ 1,052,748</u></u>

Note 4. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1999. Property taxes were billed to finance governmental services for the year ended June 30, 2000. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 1, 2000 through March 5, 2001.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 1999. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 27, 2000 through April 16, 2001.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
May 30, 2001
(Continued)

Note 5. Interest Income

The former Leslie County Sheriff earned \$2,797 as interest income on 1999 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the former Sheriff's office.

Note 6. Sheriff's 10% Add-On Fee

The former Leslie County Sheriff collected \$20,738 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the former Sheriff's office.

Note 7. Advertising Costs And Fees

The former Leslie County Sheriff collected \$1,200 of advertising costs and \$626 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The former sheriff paid advertising costs to his fee account rather than the fiscal court. Because of this, the fee account owes the fiscal \$1,200 in advertising cost.

Note 8. Former Sheriff Ford Bowling Criminal Indictment and Civil Action

On October 4, 1995, a three-count indictment (95-CR-00056) was returned by the Leslie County Grand Jury charging former Sheriff Ford Bowling with failing to properly account for and disburse tax money collected by his office. This indictment related to former Sheriff Ford Bowling having a cumulative deficit of \$148,592 in his property tax account. The indictment was dismissed without prejudice on January 26, 1998. On February 28, 1996, a civil action (96-CI-00043) was filed by the Leslie County Fiscal Court and other taxing districts against former Sheriff Ford Bowling and his bonding companies. The civil action also related to the cumulative deficit of \$148,592 and asked for a judgment that the appropriate amount of tax money, advertising costs, and interest and fees due and owing be paid to each taxing district and that excess fees due Leslie County Fiscal Court be paid. The civil action was dismissed on January 24, 2001.

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COMMENTS AND RECOMMENDATIONS

LESLIE COUNTY
JAMES F. DAVIDSON, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

May 30, 2001

STATE LAWS AND REGULATIONS:

1. The Sheriff's Office Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On September 30, 2000, \$152,748 of the former Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff's office require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Former Sheriff Davidson's Response:

I was not aware that the bank did not have enough securities pledged.

2. The Former Sheriff Should Have Obtained A County Revenue Bond

The former Sheriff did not obtain a special county levy bond for the 1999 tax collection period. KRS 134.250 states the Sheriff shall annually, before he proceeds to collect the county levy, execute bond to the Commonwealth with one or more sureties in the minimum amount of ten thousand dollars (\$10,000), conditioned for the faithful performance of his duties and to pay over in due time to the proper person, as directed by the court, all money collected by him. This bond shall be approved by the fiscal court, and when approved shall be recorded by the fiscal court in minutes and filed by the fiscal court with the county clerk. We recommend the Sheriff's office obtain a county revenue bond adequate to cover all money collected.

Former Sheriff Davidson's Response:

It was my understanding that this bond was not required.

3. The Former Sheriff Should Have Prepared An Accurate Settlement

The former Sheriff's settlements for 1999 taxes and 1999 unmined coal taxes were not accurate and could not be relied upon. There were several categories that were incorrectly stated. In addition, some of the supporting documentation for amounts included on the former Sheriff's settlement was not available for the auditors to examine. We recommend that the Sheriff's office prepare an accurate settlement and maintain supporting documentation for all amounts reflected on the annual settlement.

Former Sheriff Davidson's Response:

I will correct future settlements.

LESLIE COUNTY
 JAMES F. DAVIDSON, FORMER SHERIFF
 COMMENTS AND RECOMMENDATIONS
 May 30, 2001
 (Continued)

4. The Former Sheriff Should Collect Prior Year Uncollected Amounts Due Tax Account

In prior year audit reports for the 1998 and 1997 taxes, we recommended that the former Sheriff collect several receivables and pay several liabilities. The former Sheriff collected most of the receivables and paid all liabilities reported in those prior year audit reports. Since the former Sheriff did not collect all receivables, he transferred money from his 1999 property tax account to pay all 1998 and 1997 tax account liabilities. Those amounts are now due to be repaid to the 1999 property tax account. As of the current date, the following prior year refunds due to the former Sheriff's tax account have not been collected:

<u>1998 Property Taxes - Uncollected Refunds</u>		<u>1997 Property Taxes - Uncollected Refunds</u>	
Kentucky State Treasurer	\$ 1,668	Kentucky State Treasurer	\$ 156

We recommend the former Sheriff collect the amounts due from the state. Once the former Sheriff collects these refunds, he should deposit them into the 1999 property tax account as repayment of amounts transferred from the 1999 tax account to settle 1998 and 1997 tax account liabilities.

Former Sheriff Davidson's Response:

I will contact Revenue Cabinet and request refunds.

5. The Former Sheriff Should Collect Refunds Due To The Tax Account and Distribute Additional Amounts Due To Others

Based upon test procedures, our audit reflects the following refunds due the former Sheriff and the following amounts due others for the 1999 regular tax transaction

<u>Refunds Due To The Tax Account</u>		<u>Amounts To Be Paid To Others</u>	
Kentucky State Treasurer	\$ 31	Library	\$ 134
County	452	Soil Conservation	2
Common School	205	Unmined Coal Account	670
Health	37	Fee Account-Commissions	2,187
Extension	59		
1997 Tax Account	156		
1998 Tax Account	1,668		
Totals	<u>\$ 2,608</u>	Totals	<u>\$ 2,993</u>

We recommend the former sheriff collect refunds due the 1999 tax account. Furthermore, we recommend the former Sheriff pay the additional amounts due others as soon as the refunds are collected.

Former Sheriff Davidson's Response:

I will make every effort to settle with districts.

LESLIE COUNTY
 JAMES F. DAVIDSON, FORMER SHERIFF
 COMMENTS AND RECOMMENDATIONS
 May 30, 2001
 (Continued)

6. The Former Sheriff Should Collect Refunds Due To The Unmined Coal Tax Account And Distribute Additional Amounts Due To Others

Based upon test procedures, our audit reflects the following refunds due the former Sheriff and the following amounts due others for the 1999 unmined coal tax transactions:

Refunds Due To The Tax Account		Amounts To Be Paid To Others	
Common School	\$ 77	Kentucky State Treasurer	\$ 670
1999 Tax Account	<u>670</u>	Fee Account-Commissions	<u>77</u>
Totals	<u>\$ 747</u>	Totals	<u>\$ 747</u>

We recommend that the former sheriff collect refunds due the 1999 unmined coal tax account. Furthermore, we recommend that the former Sheriff pay the additional amounts due others as soon as the refunds are collected.

Former Sheriff Davidson's Response:

I will make every effort to settle with districts.

INTERNAL CONTROL - MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We are recommending that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily deposit, and receipts ledger.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Former Sheriff Davidson's Response:

We do the best with our limited staff size.

PRIOR YEAR:

The Former Sheriff Should Collect Refunds Due To The Tax Account And Should Distribute Additional Amounts Due To Others

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
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Honorable Kenneth R. Witt, Leslie County Judge/Executive
Honorable James F. Davidson, Former Leslie County Sheriff
Members of the Leslie County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the former Leslie County Sheriff's Settlement - 1999 Taxes as of May 30, 2001, and have issued our report thereon dated March 26, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Leslie County Sheriff's Settlement - 1999 Taxes as of May 30, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff's Office Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Former Sheriff Should Have Obtained A County Revenue Bond
- The Former Sheriff Should Have Prepared An Accurate Settlement
- The Former Sheriff Should Collect Prior Year Uncollected Amounts Due Tax Account
- The Former Sheriff Should Collect Refunds Due To The Tax Account And Distribute Additional Amounts Due To Others
- The Former Sheriff Should Collect Refunds Due To The Unmined Coal Tax Account And Distribute Additional Amounts Due To Others



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Leslie County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 26, 2003

